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Top Secret

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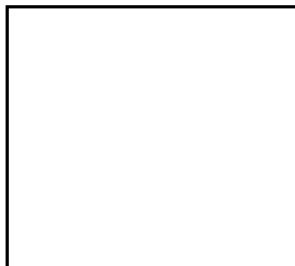
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NATIONAL INTELLIGENCE DAILY CABLE

Tuesday June 21, 1977

CG NIDC 77-143C



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NATIONAL SECURITY INFORMATION

Unauthorized Disclosure Subject to Criminal Sanctions

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Approved For Release 2005/06/30 : CIA-RDP79T00975A030200010035-7

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National Intelligence Daily Cable for Tuesday, June 21, 1977.

The NID Cable is for the purpose of informing senior US officials.

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ISRAEL: Begin Cabinet Approved

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[] The Israeli parliament yesterday approved by a 63-53 vote the narrow right-wing coalition presented by Likud leader Menahem Begin. The new government includes Ezer Weizman, Begin's second-in-command in Likud, as defense minister and the controversial Moshe Dayan as foreign minister. Begin will run the new government with a strong hand; he is unlikely to come under any pressure from his cabinet to modify his hard-line position on those issues he regards as fundamental in the Arab-Israeli dispute.

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[] The National Religious Party holds the key domestic ministries of interior, religious affairs, and education. The orthodox Agudat parties have declined to participate in the cabinet, although they have pledged to vote with the new government in parliament.

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[] Begin is temporarily holding open the social welfare, justice, and communications portfolios in case the Democratic Movement decides to join his coalition. These posts, however, are not likely to satisfy the Democratic Movement's demand that it be given a real voice in the new government.

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[] As prime minister, Begin probably will deal with his government in the same autocratic manner by which he has long ruled his own party, especially on Arab-Israeli issues. Throughout his unsuccessful coalition talks with the Democratic Movement, he kept Likud under full control, overruling the desire of some in the party's Liberal wing to seek compromises in the interest of broadening the new government's parliamentary majority. Begin's offer of the Foreign Ministry to Dayan, made without consulting the Liberals and maintained in the face of opposition from the Democratic Movement, is another indication of his inclination to rule by fiat.

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[] Dayan and Weizman, both assertive personalities, have thus far gone out of their way to avoid friction with Begin. Dayan, having severed his long-standing ties with the Labor Party, has little choice but to preserve close relations with Begin. He, like Weizman and Liberal leaders, probably will continue to follow Begin's lead, although they may jockey behind the scenes in anticipation of an internal power struggle should poor health force Begin to step aside.

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[] Many Israelis welcome indications that Begin will provide strong and unyielding leadership on peace issues, which they see as essential to deal with growing Arab sophistication in negotiating tactics and to meet anticipated US pressure for large-scale territorial withdrawals.

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[] The principal constituents of the new government--immigrants from North Africa and eastern Arab states and the orthodox religious community--are likely to rally enthusiastically behind Begin's personal leadership. The immigrants generally harbor bitter memories of their experiences as minorities and strongly support Begin's hard line.

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[] There are some in the National Religious Party who privately favor a more flexible approach to the Arabs, but the hawkish youth wing, which fully agrees with Begin's views on the West Bank, effectively controls the party. Although the orthodox Agudat Israel party has supported Labor on negotiation questions in the past, it seems unlikely to raise objections with Begin over Arab-Israeli issues as long as he defers to the party's demands for strict enforcement of religious laws. []

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CHINA: Effects of the Drought

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[] //Rain since April has brought some improvement in growing conditions in most areas of China, but drought continues to threaten some crops. Although the drought has ended in the North China Plain, the major winter wheat area, parts of the northeast are still very dry. Rice-growing areas in the south lost some early rice, but growing conditions now appear to have returned to normal. Wheat imports have increased dramatically since last year and are approaching the record levels of 1973 and 1974.//

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[] //Above average rainfall in May and June relieved the drought in the North China Plain. Southwestern Shantung is still dry. Irrigation has helped ease the effects of the drought;

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[] //The winter wheat harvest is nonetheless down from last year's record crop. []

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[] It is still too early to assess the effect of the drought on the summer and fall-harvested crops, which account for the bulk of China's grain. Transplanting of early rice in Kwangtung was affected to some extent, and there have been a few reports of switching from double-cropping to single-cropping of rice. The continued drought in the northeast may have some adverse effect on spring wheat, miscellaneous grains, and soybeans. There has been some talk of drought in Szechwan, but weather data show adequate moisture.

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[] Imports of wheat scheduled for delivery in 1977 now total 6.7 million tons. Grain imports in 1975 and 1976 were exceptionally low--2.6 million and 1.9 million tons respectively--because of good crops in 1974 and 1975 and the deliberate attempt in 1976 to hold down grain imports because of balance-of-payments problems. We do not expect China to import much more grain this year since imports scheduled between July and December approach the limits of port capacities.

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[] The leadership attaches great importance to its first harvest year and has taken several concrete measures to offset the effects of the drought. They include:

- Tightening grain rations in some areas.
- Use of drought-resistant crops.
- Mobilization of cadre and white-collar workers.
- Control of population movements from drought-stricken areas.

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[] To make up the shortfall in winter wheat and to keep even with the population increase, production from the late harvest must be 4 to 5 percent above that of 1976. This increase is not unattainable; the late harvests last year were below average. []

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SPAIN: Cabinet Formation Ending

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[] Spanish Prime Minister Suarez may be nearing the end of his consultations with leaders of his victorious centrist alliance and could announce his new cabinet by the end of the week. The composition of the new government will provide clues as to how Suarez will deal with pressing economic problems and mounting demands for regional autonomy.

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[] With 95 percent of the votes counted, the Prime Minister's Union of the Democratic Center apparently fell 11 seats short of a majority in the 350-seat lower house. Suarez will have to decide whether to seek a majority or to stick with a minority government grouped around his followers in the current cabinet and other Democratic Center leaders.

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[] The absence of a no-confidence procedure in Spanish law and the blurring of responsibility between the executive and the legislature make a minority government feasible. Suarez could work out a series of shifting alliances with opposition parties on key pieces of legislation.

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[] Should the government be unable to push its program through parliament, the King has the power to submit contentious matters to the people. Referendum results are binding on the legislature, which must comply or be dissolved.

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[] A coalition with the Socialist Workers Party, which finished a strong second at the polls, seems unlikely. Socialist leader Gonzalez after the election said that such a coalition is "almost impossible" and went on to describe his party as "the principal opposition force" in Spain. Suarez is more likely to seek a pact with the Socialists on handling the country's serious economic problems. Austerity measures will be difficult to enforce without a measure of cooperation from organized labor, which is dominated by the Socialists and Communists.

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Suarez could turn to various small parties--Christian Democrats, independent centrists, refugees from the demoralized rightist Popular Alliance, and moderate regionalists--to build an absolute majority in the lower house. This, however, would make the government even more unwieldy; in fact, Suarez will have trouble enough keeping the disparate parties of the Democratic Center pulling together. Moreover, the small parties would probably make unacceptable demands.

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Moderate regional parties in Catalonia and the Basque provinces have enough seats between them to give Suarez a majority, but they would almost certainly demand in return guarantees that significant autonomy be granted to their regions--a price Suarez would be loath to pay in the face of stiff military opposition.

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Underlining this determination to press for an autonomous Basque nation within a federated Spain, some 30 newly elected Basque members of parliament, including Socialists, met on Sunday to pledge unity in working for self-government. A spokesman for the major Basque party--the moderate, Christian-Democratic oriented Basque Nationalist Party--said that his party would join the government only if the Basques were granted immediate autonomy and all remaining political prisoners and exiles were granted full amnesty.

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In Catalonia, the Catalan Socialist Party--a regional ally of the Socialist Workers Party which won 16 of the 47 Catalan seats in the lower house--has called a pro-autonomy meeting for later this week. Newly elected Catalan deputies and senators have called a meeting for today to choose a provisional council to negotiate with the government for the region's autonomy.

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CHINA: Record Trade Surplus

[Redacted] //Sharp cuts in China's imports from the West led to a record foreign trade surplus in 1976 and a strengthening of Peking's hard-currency balance of payments. Despite a smaller trade surplus this year, Peking will not encounter any payments problems.//

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[REDACTED] //The improvement last year in China's balance of payments with the non-communist world resulted from a \$990-million current-account surplus and a reduction in Peking's outstanding obligations. International reserves still declined by \$140 million, in part due to devaluation of sterling holdings.//

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[REDACTED] //A combination of planned cuts and economic disruptions slashed China's import bill, especially in the second half of the year. Exports were surprisingly unaffected by the disruptions, and a \$200-million gain in traditional exports offset a drop in oil sales.//

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[REDACTED] The new leadership has openly espoused a return to an active trade policy stressing the importance of foreign technology imports and the attendant need to boost exports, including raw materials. A new foreign trade plan is still being hammered out, however, and no major round of capital equipment purchases is likely until late this year or perhaps 1978. Peking will make every effort to avoid a balance-of-payments crunch like that of 1974, when record agricultural imports accompanied sizable major equipment purchases.

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[REDACTED] The trade surplus this year will drop by perhaps half the \$940-million peak achieved last year because export growth will be slow. Any increase in exports will be in traditional goods. Sales of Chinese crude oil may only match last year's level of 8 million tons.

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[REDACTED] Imports will recover, largely as a result of increased agricultural imports that will exceed \$1.5 billion; grain contracts alone total at least \$900 million. Imports of industrial goods will remain high and prices will be up. Machinery and equipment imports, however, will drop again.

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[] A trade surplus this year plus larger credit drawings will enable China to cover increased imports. Payments on complete plants and debt service on short- and medium-term credits will total about \$600 million this year, down one third from 1976. New drawings on grain and complete plant credits will more than equal this amount. Any drawdown in China's reserves should again be small. Gold sales will depend on Peking's views of gold as a reserve asset.

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[] Fiscal policies will remain conservative; Peking is unlikely to permit direct bank loans, foreign investment, or joint ventures. It is, however, considering a long-term agreement to exchange oil and coal for Japanese steel and machinery, greater use of hard-currency deposits by foreign banks with the Bank of China, and one-year overdraft facilities from Japanese banks. This more liberal approach to the use of credits would enable China to expand imports more rapidly than by relying on export growth alone. []

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JAPAN: Maritime Interests

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[] *Japan's newly expanded maritime interests are likely to provide ammunition for advocates of enlarging and modernizing Japan's naval forces. Since the first of the year, Japan has decided to extend its territorial waters from 3 to 12 miles, established a 200-mile fishing zone, initialed an interim fisheries agreement with the USSR, and approved an agreement with South Korea for joint offshore oil exploration and development. These actions will force the Japanese to pay increased attention to defending their maritime interests and monitoring foreign shipping.*

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[] Japan has already moved to strengthen its coastal patrol capabilities. The Japanese are augmenting their Maritime Safety Agency, an 11,000-man Coast Guard - type force that polices Japan's territorial waters. This agency plans to rely heavily upon air surveillance, making use of long-range, fixed-wing aircraft and helicopters. Over the next three years, the agency is planning to receive two helicopter-carrying patrol ships, five YS-11 patrol aircraft, and 12 Bell-212 utility helicopters.

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[] Even with additional equipment, the Maritime Safety Agency will have difficulty meeting the demands placed upon it. Japan's regular naval forces can aid the maritime agency only under special circumstances and on order from the prime minister. At the moment, the Japanese government does not want to arouse a domestic political controversy by proposing changes in the Self-Defense Force Law. The Japan Defense Agency, for its part, is trying to keep its options open by encouraging public discussion of the implications of Japan's expanded maritime jurisdiction.

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[] The adoption of the 12-mile territorial limit gives Japan implicit control over 60 straits and passages that have long been considered international waters. Although Japan has exempted a number of these from its jurisdiction and has limited enforcement of its fishing zone in the waters adjoining South Korea and China, it is still faced with the need to monitor increased marine traffic, police other sectors of its 200-mile fishing zone, and protect future petroleum development operations on the East Asian continental shelf.

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[] This year's naval budget provides for an increase of about \$140 million, or some 12 percent, over that of the previous year. It includes appropriation for the construction of two frigates, a 2,200-ton submarine, two minesweepers, and three support ships. Funds for a new missile-armed destroyer were withheld.

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[] The Maritime Self-Defense Force consists of about 90 relatively modern warships, including 30 destroyers, 15 frigates, and 16 submarines, supplemented by about 250 auxiliaries. The 40,000-man navy has little offensive capability and is hampered by inadequate logistic support. Like the other elements of Japan's Self-Defense Forces, the navy operates under budgetary and manpower constraints. At its current strength, the navy is probably incapable of operating much beyond Japanese coastal waters without the support of US naval units.

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25X1 [] The navy would also like to replace its old P-2J fixed-wing antisubmarine aircraft with the Lockheed P-3C. The Lockheed scandal set back acquisition of the first of a potential fleet of 60 to 70 of these aircraft last year; a combination of political and budgetary limitations prevented a decision on P-3C procurement again this year. It will cost more than \$2 billion to replace the P-2Js, which will begin to reach the end of their service life by 1981.

25X1 [] If political factors continue to delay the purchase of the P-3C, pressures for the design and production of a domestic antisubmarine aircraft are likely to grow. This costly alternative could postpone availability of the planes until the late 1980s.

25X1 [] Both the Maritime Safety Agency and the Maritime Self-Defense Force will require additional strengthening to meet Japan's seaborne security needs in the coming decade. Progress is likely to be slow. Proposals for additional naval ships and antisubmarine aircraft must compete with equally expensive requests for acquisition of advanced fighter-interceptors and an airborne early warning system. An attempt to purchase all of these weapons and systems simultaneously would drive Japan's defense spending above the politically acceptable threshold of 1 percent of gross national product.

25X1 [] Nonetheless, Japan's growing maritime interests make the improvement of the country's naval and coastal patrol force

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imperative. Although Japanese officials continue to resist pressure to play a larger role in balancing Soviet naval power in the northwestern Pacific, they will no doubt take the steps required to protect Japan's economic interests in adjacent seas.

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